

retained as undivided profits. At the end of 1949, the general reserves and undivided profits of all savings and loan associations in the United States amounted to \$1.1 billion. This was over 7.5 percent of the \$14.7 billion of private savings invested in these institutions.

Most of the assets of savings and loan associations take the form of mortgage loans, usually on residential properties. Thirty years ago, this type of loan accounted for over 90 percent of the assets of these institutions; today, the percentage is somewhat lower, although mortgage loans represented 80 percent of all assets held at the end of 1950. Table 10 shows for 1950 the types of assets held by savings and loan associations at the end of the year 1950, and in the case of federally insured associations, the types of mortgage loans held at the end of the year and the net income, dividends, and additions to undivided profits during the year. The table indicates that these associations have a much larger portion of their assets invested in real-estate mortgages than is true in the case of commercial banks. However, this can be attributed to the fact that since the deposits of savings and loan associations are almost exclusively time deposits, it is possible for them to invest most of their funds in nonliquid assets. The majority of the deposits of commercial banks, on the other hand, are demand deposits requiring greater liquidity in their investments. It should also be noted that, as in the case of the mutual savings banks, nearly one-third of the mortgage loans of the building and loan associations, in terms of value, are insured or guaranteed by the Veterans' Administration or the Federal Housing Administration.

In the early days of these institutions, the transactions of the associations were confined to members, and no one could participate in the benefits they afforded without becoming a shareholder. Individuals became investing members of these organizations in the expectation of ultimately becoming borrowing members as well. Membership implied not only regular payments to the association for a considerable period of time, but also risk of losses. Members could not cancel their memberships or withdraw their shares before maturity without incurring heavy penalties. The fact that the members were both the borrowers and the lenders was the essence of the "mutuality" of these organizations.

Although many of the old forms have been preserved to the present day, few of the associations have retained the substance of their earlier mutuality. The steady decline in the proportion of share-accumulation loans is evidence that the character of these organizations has changed. More and more, investing members are becoming simply depositors, while borrowing members find dealing with a savings and loan association only technically different from dealing with other mortgage lending institutions in which the lending group is distinct from the borrowing group. In fact, borrowers ordinarily have very little voice in the affairs of most savings and loan associations.

One characteristic of the earlier mutuality which remains is the absence of capital stock. However, the character of the organization has been modified by the practice of paying more or less fixed rates of return on shares, and of building up substantial surplus accounts to protect shareholders against the risk of losses.

Savings and loan associations at present are exempt from income tax under section 101 (4) of the code. In addition, Federal savings and

loan associations which are chartered by the Federal Government are exempt from income tax under the Home Owners' Loan Act of 1933 and are covered by subsection (15) of section 101 of the code providing for the exemption of United States instrumentalities.

Section 313 of your committee's bill removes the exemption of savings and loan associations, including Massachusetts cooperative banks, and those chartered by the Federal Government and taxes them as ordinary corporations. However, it specifically allows the deduction for dividends paid to depositors and the amounts placed in bad-debt reserves on basis similar to that provided for mutual savings banks. This provision is effective with respect to taxable years beginning after December 31, 1951.

The grounds on which your committee's bill taxes savings and loan associations on their retained earnings, after making a reasonable allowance for additions to reserves for bad debts, are the same as those on which mutual savings banks are taxed under the bill. Moreover, since savings and loan associations are no longer self-contained cooperative institutions as they were when originally organized there is relatively little difference between their operations and those of other financial institutions which accept deposits and make real-estate loans.

The principal argument that a savings and loan association does not really have income which could be taxed is based on the theory that both the borrowers and the investors are members of the association and that the interest paid by the borrowers on their loans is really only paid to themselves as members of the association. In other words, it is argued that the mutuality of the borrowing and the investing members is such that no income exists.

The mutuality argument assumes that in the long run, the investments of each member are equal to the debts he has owed the organization. It also assumes that the membership in each organization is fixed and that eventually each member will receive a proportionate share of the accumulated earnings of the organization. These assumptions might have been valid for the original savings and loan associations which terminated after they had fulfilled their purposes for the original membership groups. They are not generally valid, however, for the present-day associations, where investing members may never contemplate becoming borrowers and where the organizations are permanent and a member has no right to a share in the undistributed earnings upon withdrawal.

Another basis on which it is argued that the savings and loan associations do not have income is that all their receipts are either paid out as expenses or as dividends to members or accumulated for the mutual benefit of the members. However, an individual member or depositor has no claim to a share of the accumulated earnings unless he remains in the organization until its dissolution. The idea that income of a savings and loan association belongs to a member even though it is not paid to him or allocated to his account is a more extreme concept of cooperative ownership than that used by cooperatives.

The income which is added to reserves and undivided profits by the savings and loan associations cannot be treated as income to a member or depositor for income-tax purposes under the doctrine of constructive receipt because the member cannot obtain it unless he remains a member of the association until it is dissolved. It is

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income of the associations. The fact that it is retained for the benefit of the members makes it analogous to the income retained by an ordinary taxable corporation for the benefit of its stockholders.

C. UNRELATED BUSINESS INCOME OF GOVERNMENT COLLEGES AND UNIVERSITIES

The Revenue Act of 1950 imposed the regular corporate income tax on certain tax-exempt organizations which are in the nature of corporations with respect to so much of their income as arises from active business enterprises which are unrelated to the exempt purposes of the organization (including certain "lease-back" income). However, the present provision does not apply to such income of State universities and other schools of governmental units. It has been called to the attention of your committee that some State schools are engaging in unrelated activities and "lease-backs" which would be taxable if they were not a State or its instrumentality. It is clear that the same opportunities for unfair competitive advantage exist in connection with these activities of State universities as with respect to similar activities of other educational institutions. Therefore, section 338 of your committee's bill extends the present tax to the unrelated business income of universities and colleges of States and of other governmental units. As a result governmental universities and colleges will be taxable on income derived from any unrelated business activities carried on by the schools themselves (including the income derived from leases for over 5 years of property purchased with borrowed funds), and also their "feeder" corporations carrying on a trade or business will be fully taxable.

This amendment is effective with respect to taxable years beginning after December 31, 1951.

The House bill contained no similar provision.

The revenue gain from this provision is expected to be small.

D. EDUCATIONAL "FEEDER" CORPORATIONS

The Revenue Act of 1950 included a series of provisions which, under specified conditions, resulted in the imposition of taxes on educational, charitable, and certain other tax-exempt organizations, foundations, and trusts. Among these provisions was one which for 1951 and subsequent years specifically denied exemption to "feeder" corporations, that is, corporations carrying on a trade or business for profit whose profits inure exclusively to organizations exempt under section 101 of the code. With respect to prior years the tax status of such corporations was then in litigation. With respect to these years the Revenue Act of 1950 provided that no tax would be asserted for years prior to 1947 unless a deficiency had already been asserted, or taxes had already been assessed or paid. Your committee believes undue hardship would arise if any of these educational feeder corporations were required to pay taxes on income which had already been spent to carry on educational programs.

Therefore, both section 601 of your committee's bill and section 501 of the House bill amend section 302 of the Revenue Act of 1950 to provide that for years prior to 1951 exemption is not to be denied

feeder corporations if their profits inure to a regularly established school, college, or university.

This provision is expected to have no permanent effect on revenues.

VI. STRUCTURAL CHANGES IN THE INCOME TAXES

A. PROVISIONS IN THE HOUSE BILL ALSO IN YOUR COMMITTEE'S BILL

1. *Life-insurance companies*

In section 401 of the Revenue Act of 1950 the formula used for computing the net income of life-insurance companies was amended, the action being effective only for 1949 and 1950. This action was necessitated by the fact that the formula set up in the Revenue Act of 1942 resulted in no tax being due from any company on its life-insurance-investment income for the years 1947 and 1948. The substitute formula provided for 1949 and 1950 was intended to be a stopgap which would terminate the tax-exempt status of this type of income and permit the completion of the study needed for the development of a permanent solution to the problem of the taxation of life-insurance companies.

Section 311 of the House bill applies the stopgap formula to life-insurance-investment income for 1951. This was deemed necessary because, although considerable progress has been made in the study of the problems of the proper taxation of life-insurance companies, a reasonable and acceptable solution to many of the problems has not yet been developed, and it is generally recognized that the formula set up in the Revenue Act of 1942 is defective. Although that formula would no longer have resulted in a tax-free status for life-insurance companies in 1951, because the yield on life-insurance investments has somewhat increased and the average rate of interest required to maintain the life-insurance reserves has decreased, the revenue which would have been obtained under that formula is, because of its defective nature, only about half that which would be obtained for 1951 by a continuation of the use of the stopgap formula.

During the hearings conducted by your committee, representatives of almost all the life-insurance companies presented a proposal which in their view is a reasonable and adequate method of taxing the income of those companies. In your committee's bill that plan is substituted for the stopgap formula as provided in the House bill, as the method for determining the income-tax liability of life-insurance companies for 1951.

Under the stopgap formula, as used for 1949 and 1950 and as provided for 1951 in the House bill, the taxable income of each life-insurance company relating to its life-insurance business is determined by deducting from its net investment income a percentage of that income. To that amount is added an amount—3¼ percent of the unearned premiums and unpaid losses—reflecting the taxable income of its accident and health business, if any. Appropriate adjustments are made with respect to exempt interest and the credit for dividends received. The normal tax is obtained by applying the ordinary corporation normal tax rate to that entire amount, and the surtax is obtained by applying the ordinary surtax rate to that portion in excess of \$25,000. The percentage to be deducted in arriving at the taxable income is the same for all life-insurance companies, and is

determined and proclaimed for each year by the Secretary of the Treasury, by comparing the aggregate amount needed in the previous year by all life-insurance companies to meet their life insurance policy obligations and any other interest on indebtedness with the aggregate net investment income of all life-insurance companies less $3\frac{1}{4}$ percent of the unearned premiums and unpaid losses of those companies which had health and accident insurance. For 1950 this percentage, based on 1949 data, was slightly more than 90 percent; for 1951, based on 1950 data, it would probably be between 87 and 88 percent.

Section 335 of your committee's bill substitutes a different formula for the taxation of life insurance companies in 1951. Under it the income tax is in general to be $3\frac{1}{4}$ percent of so much of the net investment income of each company as is not in excess of \$200,000, and $6\frac{1}{2}$ percent of the amount over \$200,000. It will be noted that $3\frac{1}{4}$ percent of \$200,000 is approximately the same as 27 percent of \$25,000; and that $6\frac{1}{2}$ percent of net investment income is approximately the same as 52 percent of 12 to 13 percent (100 percent less 88 or 87 percent) of the entire net income. For those companies with accident and health insurance an appropriate adjustment is made so that the tax computed at the $3\frac{1}{4}$ - and $6\frac{1}{2}$ -percent rates is approximately the same as a tax at the ordinary 27- and 52-percent rates on the income (determined as before) from that part of their business. As under the present stopgap formula, appropriate adjustments are made for exempt interest and the credit for dividends received.

Since the new formula, under the circumstances of 1951, is substantially equivalent to the stopgap formula, it is clear that, for most life-insurance companies, the income-tax liability under your committee's bill will be substantially the same for 1951 as it would be under the provisions of the House bill.

It is expected that a number of companies, mostly small, will not in 1951 earn their interest requirements, or will earn an amount only slightly in excess of their requirements. Under the stopgap formula these companies would have paid ordinary corporation normal taxes and surtaxes on the same percentage of their net investment incomes as the other companies whose net investment income materially exceeded their policy requirements. Under your committee's bill a measure of relief is accorded such companies: those with net investment income less than their policy requirements will, in general, pay a tax at $3\frac{1}{4}$ or $6\frac{1}{2}$ percent on only 50 percent of their net investment incomes, while those with net investment incomes of from 100 to 105 percent of their policy requirements will pay a tax at the rate of $3\frac{1}{4}$ or $6\frac{1}{2}$ percent on amounts varying from 50 to 100 percent of their net investment incomes. With respect to companies which also do an accident and health insurance business, in determining whether or not their net investment income is less than that required to meet their life-insurance-policy requirements, or not more than 105 percent of that amount, the total net investment income is reduced by one-half of $3\frac{1}{4}$ percent of their unearned premiums and unpaid losses on the accident and health policies. The limitation of this reduction to one-half of the adjustment for such business appears to be reasonable since, as was stated in the report on the 1942 provisions by the Committee on Finance,¹³ "there is very little investment income derived from the investment of premiums on such (accident and health) contracts."

¹³ 77th Cong., 2d sess., S. Rept. No. 1631, p. 148.

It is believed that the method of taxation provided by your committee's bill is not only more equitable with respect to certain of the smaller companies which do not earn a margin of investment income over their requirements but also that it is simpler in structure and involves fewer compliance and administrative difficulties than the stopgap formula provided in the House bill.

It has been suggested that this new method of taxing life-insurance companies should be used permanently, or for an indefinite period in the future. It is the opinion of your committee, however, that the question whether this new method is the best practicable method should only be answered after the results of the present continuing study are available, and after this method is carefully compared with other possible methods of taxing life-insurance companies which may be suggested as the results of that study. Therefore, in your committee's bill, the application of this method is limited to taxable years beginning in 1951.

It is estimated that for 1951 the revenue under your committee's bill will be about \$111 million, an amount about \$58 million more than would be obtained under the 1942 formula.

2. Offset of short- and long-term capital gains and losses

Section 322 of this bill amends the treatment of the gains and losses of individuals so as to eliminate a defect in existing law. This section is identical to section 305 of the House bill. Present law excludes 50 percent of a long-term capital gain or loss from the computation of net capital gain, net capital loss and net income, but includes 100 percent of a short-term capital loss in such computations. As a result a \$1 short-term loss can wipe out a \$2 long-term gain.

Under the bill long-term gains are included in gross income at 100 percent and a deduction from gross income is allowed equal to 50 percent of the amount by which the taxpayer's net long-term gain exceeds his net short-term loss. Thus, if a taxpayer has a net long-term gain of \$1,000 and a net short-term loss of like amount, no deduction is to be allowable. If the net long-term gain is \$2,000 and the net short-term loss is \$1,000, the deduction against gross income will be 50 percent of the excess of \$2,000 over \$1,000, or \$500. Hence the amount actually taxed as a long-term capital gain will be \$500. Under existing law the \$1,000 of short-term loss offsets the portion of the long-term gain included in the calculation of net income, and no tax liability exists.

Long-term losses, like long-term gains, are to be taken into account in full. Long-term losses will therefore offset short-term gains on a dollar-for-dollar basis, just as short-term losses will offset long-term gains. If long-term losses exceed short-term gains, the unreduced excess will be offset against other income up to \$1,000. The net loss which is not absorbed in this manner will be carried forward as a short-term capital loss, whether arising out of short- or long-term operations.

Under both your committee's bill and the House bill, the amendment applies only to taxable years beginning on or after the date of enactment of this act.

It is estimated that when fully effective this amendment will increase the revenues by \$28 million annually.

amendment made in this bill is not specifically retroactive and without inferences drawn from the limitations contained in section 117 (m) as amended by section 326 of this bill.

It is estimated that in a full year's operations this provision will increase the revenues by \$5 million.

4. Dealers in securities

Under existing law, dealers in securities are permitted to hold some securities as a personal investment. Gains or losses on those securities which are held by the taxpayer in his capacity as a dealer are treated as ordinary income. Capital gain or loss treatment is accorded the results of the transfer of securities which the taxpayer holds as an investor. Existing law also permits the transfer of securities from such a taxpayer's investment account to his inventory account and vice versa with corresponding changes in tax liabilities. These transfers increase the difficulty of determining in which portfolio specific securities are actually held, and facilitate the manipulation of the taxpayer's accounts so as to obtain ordinary loss treatment on securities sold at a loss and capital-gains treatment on those sold at a gain.

To forestall this practice, section 327 of this bill, which is substantially the same as section 309 of the House bill, provides that in the case of a dealer in securities capital-gains treatment be available only under certain specific conditions. The security in question must have been clearly identified in the dealer's records as "a security held for investment" within a period of 30 days after the date of its acquisition or after the date of enactment of the Revenue Act of 1951, whichever is later, and must not at any time thereafter have been held by the taxpayer "primarily for sale to customers in the ordinary course of his trade or business." Unless these terms are complied with, the gain on the sale of the security is to be taxed as ordinary income.

Ordinary loss treatment is not to apply where the security sold was, at any time after this section becomes applicable, clearly identified in the dealer's records as "a security held for investment."

Your committee has changed the House provision to insure that this amendment will not affect the application of section 117 (i) of the Code which provides, in the case of banks, that, if losses from the sale of all securities during a year exceed the gains, then the net loss shall be treated as an ordinary loss.

The amendment applies to sales or exchanges made more than 30 days after the date of enactment of this act.

The revenue loss resulting from this amendment is expected to be negligible.

5. Gain from sale or exchange of the taxpayer's residence

Section 318 of your committee's bill and section 305 of the House bill are the same except in one respect. Both sections amend the present provisions relating to a gain on the sale of a taxpayer's principal residence so as to eliminate a hardship under existing law which provides that when a personal residence is sold at a gain the difference between its adjusted basis and the sale price is taxed as a capital gain. The hardship is accentuated when the transactions are necessitated by such facts as an increase in the size of the family or a change in the place of the taxpayer's employment. In these situations the transaction partakes of the nature of an involuntary conversion. Cases of this type are particularly numerous in periods of rapid change such

as mobilization or reconversion. For this reason the need for remedial action at the present time is urgent.

Both bills provide that when the sale of the taxpayer's principal residence is followed within a period of 1 year by the purchase of a substitute, or when the substitute is purchased within a year prior to the sale of the taxpayer's principal residence, gain is to be recognized only to the extent that the selling price of the old residence exceeds the cost of the new one. Thus, if a dwelling purchased in 1940 for \$10,000 is sold in 1951 for \$15,000, there would ordinarily be a taxable gain of \$5,000 under existing law. Under both bills no portion of the gain is to be taxable provided a substitute "principal residence" is purchased by the taxpayer within the stated period of time for a price of \$15,000 or more. If the replacement cost is less than \$15,000, say \$14,000, the amount taxable as gain is to be \$1,000.

The provision of both your committee's bill and the House bill applies to cases where one residence is exchanged for another, where a replacement residence is constructed by the taxpayer rather than purchased, and where the replacement is a residence which had to be reconstructed in order to permit its occupancy by the taxpayer. However, under the House bill, where a replacement residence is constructed by the taxpayer, he must occupy the new residence within 1 year after sale of his old residence. This is the same rule which both your committee's bill and the House bill apply in the case of the purchase of a new residence. However, in the case of new construction the requirement of occupancy within 1 year appears to your committee not to be realistic, particularly during the present period of material and labor shortages. Therefore, your committee's bill provides that in the case of the construction of a new house, if the construction of the house begins within a year before or after the sale of the first house, and the new house is used as the taxpayer's principal residence within 18 months after the sale of the first house, then all expenditures on the new residence within this 18-month period are to be considered as a reinvestment of the selling price of the first residence.

In cases where the replacement is built or reconstructed, only so much of the cost is to be counted as an offset against the selling price of the old residence as is properly chargeable against capital account within a period beginning 1 year prior to the date of the sale of the old residence and ending 18 months (1 year under the House bill) after such date in the case of construction of a new house, and 12 months after such date in the case of reconstruction of an existing house.

This special treatment is not limited to the "involuntary conversion" type of case, where the taxpayer is forced to sell his home because the place of his employment is changed. While the need for relief is especially clear in such cases, an attempt to confine the provision to them would increase the task of administration very much.

The adjusted basis of the new residence is to be reduced by the amount of gain not recognized upon the sale of the old residence. Thus, if the replacement is purchased for \$19,000, the old residence cost \$10,000 and was sold for \$15,000, the adjusted basis of the new residence is to be \$19,000 minus \$5,000, or \$14,000. This is equal to the cost of the old residence plus the additional funds invested at the time the new residence is purchased. If the second residence had

been purchased for \$14,000, so that \$1,000 of gain on the sale of the old residence would be recognized, its basis would be \$14,000 minus \$4,000, or \$10,000.

For the purpose of qualifying a gain as a long-term capital gain the holding period of the residence acquired as a replacement in a set of transactions which qualify under the terms of the amendment is to be the combined period of ownership of the successive principal residences of the taxpayer.

The new provision extends to cases in which similar treatment is available under existing law under the involuntary-conversion provisions of section 112 (f). Such cases arise when a home is destroyed by fire or is lost by seizure or by the exercise of the powers of requisition or condemnation and the proceeds are invested in a replacement. In such cases the new provision, and not section 112 (f), is to apply. Generally this will result in more favorable treatment for the taxpayer than that available under the involuntary-conversion provisions. The latter require the tracing of the expenditure of the funds obtained as a result of the loss of the previous residence, and substantial tax consequences result from such technicalities as a decision to use the money so received to repay a mortgage on the previous residence and to use other funds for the purchase of a replacement. Moreover, no relief is available under the involuntary-conversion sections in cases where the replacement is acquired before the actual condemnation or requisition of the previous residence.

The taxpayer is not required to have actually been occupying his old residence on the date of its sale. Relief is to be available even though the taxpayer moved into his new residence and rented the old one temporarily before its sale. Similarly, he may obtain relief even though he rents out his new residence temporarily before occupying it.

The special treatment is to be available only with respect to one sale or exchange per year, except when the taxpayer's new residence is involuntarily converted, in which case he is to be treated as though a year had elapsed since the time of the previous sale of an old residence.

The ownership of stock in a cooperative apartment corporation is to be treated as the equivalent of ownership of a residence, provided the purchaser or seller of such stock uses the apartment which it entitles him to occupy as his principal residence.

Regulations are to be issued under which the taxpayer and his spouse acting singly or jointly may obtain the benefits of the bill even though the spouse who sold the old residence was not the same as the one who purchased the new one, or the rights of the spouses in the new residence are not distributed in the same manner as their rights in the old residence. These regulations are to apply only if the spouses consent to their application and both old and new residence are used by the taxpayer and his spouse as their principal residence.

Where the taxpayer's residence is part of a property also used for business purposes, as in the case of an apartment over a store building or a home on a farm, and the entire property is sold, the provisions of both bills apply only to that part of the property used as a residence, including the environs and outbuildings relating to the dwelling but not to those relating to the business operations.

These provisions apply to a trailer or houseboat if it is actually used as the taxpayer's principal residence.

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In order to protect the Government in cases where there is an unreported taxable gain on the sale of the taxpayer's residence, either because he did not carry out his intention to buy a new residence or because some of the technical requirements were not met, the period for the assessment of a deficiency is extended to 3 years after the taxpayer has notified the Commissioner either that he has purchased a new residence, or that he has not acquired or does not intend to acquire a new residence within the prescribed period of time.

The benefits of both your committee's bill and the House bill will apply to the sale of a taxpayer's principal residence made after December 31, 1950.

The revenue loss will be about \$112 million annually.

6. *Percentage depletion*

Under existing law depletion based on cost is available to all mining industries and in addition percentage depletion is available to oil, gas, sulfur, metal mines, and certain nonmetallic minerals. The allowable rate of percentage depletion is 5 percent in the case of coal, and 15 percent in the case of the other nonmetallic minerals except sulfur which is allowed 23 percent.

The testimony received by this committee both in connection with this bill and the bill which became the Revenue Act of 1950 revealed that in a number of cases nonmetallic minerals which are not in the enumerated group under existing law are competitive with those receiving percentage depletion, or have just as good a claim for such treatment as the enumerated minerals. The testimony also indicated that the 5-percent rate allowed coal is of little practical value, and that the coal mining industry is peculiarly in need of more favorable tax treatment because of the inroads which alternative sources of energy, particularly oil and gas, have made on the potential markets of coal.

Both section 319 of your committee's bill and section 304 of the House bill set up a new group of minerals to which percentage depletion is available at the rate of 5 percent. Both bills extend this rate to sand, gravel, slate, stone (including pumice and scoria), brick and tile clay, shale, oyster shell, clam shell, granite, and marble. In addition, your committee has added to this category entitled to the 5-percent rate sodium chloride, and, if from brine wells, calcium chloride, magnesium chloride, potassium chloride, and bromine. In the allowance of percentage depletion for these items, your committee does not intend to reduce allowances now granted. For example, potash is allowed percentage depletion at 15 percent under present law, and your committee does not intend to reduce this allowance with respect to potash or any of its salt derivatives which are presently receiving percentage depletion at 15 percent. The bill also makes a technical change in this portion of the House provision by including slate as a separate item rather than including it as a type of stone as in the House bill.

The House bill also included asbestos at the new 5-percent rate. Because of the importance of this product and the smallness of its supply in this country, your committee has allowed asbestos a 10-percent rate. Both bills increase coal from its present 5-percent rate to 10 percent.

The House bill added to the list of nonmetallic minerals, to which percentage depletion is available at a 15-percent rate, borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, and metallurgical and chemical grade limestones. Your committee's bill, on the other hand, provides that these items added by the House are to receive percentage depletion at the same 10-percent rate accorded coal and asbestos. In addition to these items, your committee has added a 10-percent rate for wollastonite, which is important as an insulating and fireproofing material and thus competitive with other items presently accorded similar treatment, and the magnesium compounds magnesite, dolomite, and brucite.

Your committee's bill adds to the nonmetallic minerals presently receiving 15-percent depletion, aplite. This material, which is found in only small quantities in this country, is closely related to feldspar, which already receives 15-percent depletion.

Your committee has also made two technical revisions in the 15-percent depletion section of the House bill. The latter includes at the 15-percent rate "thenardite (including thenardite from brines or mixtures of brine)." Your committee has eliminated the parenthetical limitation as unnecessary and because it might give rise to doubt as to certain other of the enumerated products. For example potash, trona, and borax are also frequently recovered from brines or mixtures of brine. The phrase "mines and other natural deposits" is clearly broad enough to include brines as well as all other natural sources. The particular type of source is immaterial.

The names of all the various enumerated minerals are of course intended to have their commonly understood commercial meaning. For example, the term "thenardite" applies to sodium sulphate, also known as salt cake; the term "trona" to sodium carbonate and sodium bicarbonate, also known as soda ash; and the term "borax" to boron minerals generally.

Your committee has also amended the House provision which reads "ball and sagger clay" to read "ball clay, sagger clay" in order to remove the implication of the House bill that these are not separate types of clay.

Many of the above changes were provided in the House version of the bill which became the Revenue Act of 1950 but they were eliminated by your committee and from the final legislation largely because of the revenue loss involved. It is apparent, however, that the need for equalization is substantially greater now because of the additional taxes imposed under the legislation of 1950 and under this bill. Therefore, the committee believes that the proposed extension of the percentage depletion system is necessary in spite of the revenue loss involved. The latter is estimated to be about \$76 million in a full year's operation.

The amendments made by this section of the bill apply to taxable years beginning after December 31, 1950.

7. *Family partnerships*

Section 339 of your committee's bill is intended to harmonize the rules governing interests in the so-called family partnership with those generally applicable to other forms of property or business. Two principles governing attribution of income have long been accepted as basic: (1) income from property is attributable to the owner of the

property; (2) income from personal services is attributable to the person rendering the services. There is no reason for applying different principles to partnership income. If an individual makes a bona fide gift of real estate, or of a share of corporate stock, the rent or dividend income is taxable to the donee. Your committee's amendment makes it clear that, however the owner of a partnership interest may have acquired such interest, the income is taxable to the owner, if he is the real owner. If the ownership is real, it does not matter what motivated the transfer to him or whether the business benefited from the entrance of the new partner.

Although there is no basis under existing statutes for any different treatment of partnership interests, some decisions in this field have ignored the principle that income from property is to be taxed to the owner of the property. Many court decisions since the decision of the Supreme Court in *Commissioner v. Culbertson* (337 U. S. 733) have held invalid for tax purposes family partnerships which arose by virtue of a gift of a partnership interest from one member of a family to another, where the donee performed no vital services for the partnership. Some of these cases apparently proceed upon the theory that a partnership cannot be valid for tax purposes unless the intrafamily gift of capital is motivated by a desire to benefit the partnership business. Others seem to assume that a gift of a partnership interest is not complete because the donor contemplates the continued participation in the business of the donated capital. However, the frequency with which the Tax Court, since the *Culbertson* decision, has held invalid family partnerships based upon donations of capital, would seem to indicate that, although the opinions often refer to "intention," "business purpose," "reality," and "control," they have in practical effect reached results which suggest that an intrafamily gift of a partnership interest, where the donee performs no substantial services, will not usually be the basis of a valid partnership for tax purposes. We are informed that the settlement of many cases in the field is being held up by the reliance of the field offices of the Bureau of Internal Revenue upon some such theory. Whether or not the opinion of the Supreme Court in *Commissioner v. Tower* (327 U. S. 280) and the opinion of the Supreme Court in *Commissioner v. Culbertson* (337 U. S. 733), which attempted to explain the *Tower* decision, afford any justification for the confusion is not material—the confusion exists.

The amendment leaves the Commissioner and the courts free to inquire in any case whether the donee or purchaser actually owns the interest in the partnership which the transferor purports to have given or sold him. Cases will arise where the gift or sale is a mere sham. Other cases will arise where the transferor retains so many of the incidents of ownership that he will continue to be recognized as a substantial owner of the interest which he purports to have given away, as was held by the Supreme Court in an analogous trust situation involved in the case of *Helvering v. Clifford* (309 U. S. 351). The same standards apply in determining the bona fides of alleged family partnerships as in determining the bona fides of other transactions between family members. Transactions between persons in a close family group, whether or not involving partnership interests, afford much opportunity for deception and should be subject to close scrutiny. All the facts and circumstances at the time of the purported

gift and during the periods preceding and following it may be taken into consideration in determining the bona fides or lack of bona fides of a purported gift or sale.

Not every restriction upon the complete and unfettered control by the donee of the property donated will be indicative of sham in the transaction. Contractual restrictions may be of the character incident to the normal relationships among partners. Substantial powers may be retained by the transferor as a managing partner or in any other fiduciary capacity which, when considered in the light of all the circumstances, will not indicate any lack of true ownership in the transferee. In weighing the effect of a retention of any power upon the bona fides of a purported gift or sale, a power exercisable for the benefit of others must be distinguished from a power vested in the transferor for his own benefit.

Since legislation is now necessary to make clear the fundamental principle that, where there is a real transfer of ownership, a gift of a family partnership interest is to be respected for tax purposes without regard to the motives which actuated the transfer, it is considered appropriate at the same time to provide specific safeguards—whether or not such safeguards may be inherent in the general rule—against the use of the partnership device to accomplish the deflection of income from the real owner.

Therefore, the bill provides that in the case of any partnership interest created by gift the allocation of income, according to the terms of the partnership agreement, shall be controlling for income-tax purposes except when the shares are allocated without proper allowance of reasonable compensation for services rendered to the partnership by the donor, and except to the extent that the allocation to the donated capital is proportionately greater than that attributable to the donor's capital. In such cases a reasonable allowance will be made for the services rendered by the partners, and the balance of the income will be allocated according to the amount of capital which the several partners have invested. However, the distributive share of a partner in the earnings of the partnership will not be diminished because of absence due to military service.

When more than one member of a family is a member of a partnership, all interests purchased by one member of the family from another will be treated as though the transfer were made by gift. For this purpose the family of an individual includes his spouse, ancestors, lineal descendants, and any trust for the primary benefit of such persons.

The amendment made by the House bill was made applicable only to taxable years beginning after December 31, 1950, with the express intention that no inferences were to be drawn from the enactment of the amendment with respect to taxable years beginning prior to January 1, 1951. Apparently with respect to prior taxable years the House amendment would have left the status of family partnerships to be determined under existing law. As the above discussion clearly indicates, the application of existing law has been extremely uncertain. Your committee believes that it is equally important to establish a rule which can be used with respect to those prior years, thus minimizing the necessity for litigation in this area. Therefore, your committee has provided that the amendment shall, at the election of any member of such a partnership, be effective with respect to any

open taxable year since December 31, 1938, that date being just prior to the enactment of the Code. Such an election will be valid only if any other members of the partnership whose taxable income would be increased consents to the assessment and collection of such deficiency, or if the taxpayer who would be entitled to a refund or reduction of his tax liability consents to the reduction of such refund or tax decrease by the amount of the related taxpayer's additional tax.

8. *Gains from sales of livestock*

Section 117 (j) of the code provides, in effect, that a net gain from sales of "property used in the trade or business" of a taxpayer and held for more than 6 months is to be treated as a capital gain. In the case of a loss, it is to be treated as an ordinary loss. However, section 117 (j) states that this treatment is not to apply to "property of a kind which would be properly includible in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business." In the case of farmers there has been considerable confusion and dispute for several years as to whether all livestock held for draft, dairy, or breeding purposes is "property used in the trade or business," or whether in some cases the livestock should be deemed held "primarily for sale to customers in the ordinary course of his trade or business."

Rulings of the Treasury Department issued in 1944 and 1945 held that the capital gains treatment was applicable only in the case of unusual sales such as those which would reduce the normal size of the herd or those resulting from a change of breed or other special circumstances, and that the capital gains treatment would not apply to the customary sale by a farmer of old or disabled animals culled from the breeding herd and replaced by young animals produced by the breeding herd. Early in 1949 the United States Court of Appeals, Eighth Circuit, held in the *Albright* case (173 F. 2d 399) that animals used for breeding purposes, whether or not sold as culls in the ordinary course of business, constituted "property used in the trade or business" within the meaning of section 117 (j). That decision specifically applied to dairy cattle and hogs but was applicable by implication to other types of livestock.

Notwithstanding the *Albright* decision, the Treasury Department continued to adhere to its position initiated in the 1944 and 1945 rulings, pending possible contrary decisions in other courts which might result in a conclusive decision by the Supreme Court. The Revenue Act of 1950 as passed by the Senate contained a provision intended to clarify this situation, but this was rejected in conference, principally because it referred to "cattle" and thus did not clear up the situation with respect to other forms of livestock such as sheep and hogs. However, the conference committee expressed the hope that the Treasury would follow the *Albright* decision.

In January 1951 the United States Court of Appeals, Fifth Circuit, decided the *Bennett* case (186 F. (2d) 407) in a manner similar to the *Albright* decision. Subsequently the Bureau of Internal Revenue issued a ruling, Mim. 6660, stating that the capital gains treatment provided by section 117 (j) would be applied to sales of culls. However, this ruling contained a statement that this treatment might not be applied in the case of animals "not used for substantially their full

period of usefulness." This exception appears to have resulted in new uncertainties, and it has been stated that Bureau agents are interpreting this ruling to mean that only animals which have completely outlived their usefulness can qualify for the capital gains treatment.

The House bill added a new sentence to section 117 (j) (1) providing that the term "property used in the trade or business" includes "livestock held by the taxpayer for draft, breeding, or dairy purposes for 12 months or more." In view of the uncertainties resulting from the recent ruling (Mim. 6660), section 324 of your committee's bill restates the sentence contained in the House bill as follows:

Such term also includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition.

Under your committee's bill, the term "livestock" does not include poultry except that it does include turkeys, regardless of age, held by the taxpayer for breeding purposes and held for 12 months or more from the date of acquisition. Thus section 117 (j) will apply to livestock used for draft, breeding, or dairy purposes, and to turkeys used for breeding purposes, whether old or young; and the holding period will start with the date of acquisition, not with the date the animal or fowl is put to such use.

The provision of the House bill is effective with respect to taxable years beginning after December 31, 1950. Your committee's bill makes the amendment applicable with respect to taxable years beginning after December 31, 1941, except that the extension of the holding period from 6 to 12 months and the amendment with respect to poultry and turkeys both apply only in the case of taxable years beginning after December 31, 1950.

Your committee believes that the gains from sales of livestock should be computed in accordance with the method of livestock accounting used by the taxpayer and presently recognized by the Bureau of Internal Revenue.

The revenue loss under this provision is expected to be \$15 million in a full year of operation.

9. *Coal royalties*

Section 325 of your committee's bill, which is similar to section 307 of the House bill, provides tax relief for the recipients of coal royalties. Most leases on coal properties are long-term and call for royalty payments expressed in cents per ton. Therefore, the lessor does not receive the automatic adjustment for price changes which occurs when a royalty is expressed as a percentage of the value of the mineral extracted from the property. Many of the existing coal leases are old and their royalty payments are small.

It is reported also that as a practical matter the lessor of a coal property is not likely to benefit from percentage depletion even under the new 10-percent rate provided in this bill, although it is anticipated that this rate will be of material benefit to the coal operators.

This section extends to the recipients of coal royalties the capital gains treatment now available to timber under section 117 (k) (2) of the code. It is intended by this provision of your committee's bill that coal royalties receive the same treatment as timber royalties. In the case of timber coming under this section, percentage depletion.

is not allowed, and it also is not to be available in the case of these coal royalties.

Considerable uncertainty now exists as to the proper interpretation of the clause "held for more than 6 months prior to such disposal" in section 117 (k) (2) of the present law, because of a recent decision of the Tax Court (*Springfield Plywood Corp.*, 15 T. C. No. 91) which held, under the particular facts in that case, that disposal of the timber occurred when the lease was made and not when the timber was cut. Your committee believes that, whatever the legal technicalities may be, the lessor's holding period should run to the time the coal is mined or the timber is cut, as the case may be, and the provisions of the House bill are amended to so provide.

In order to differentiate a lessor entitled to receive royalties from a person participating in the operation of a mine, the provisions of the House bill are inapplicable if the owner of the coal is "personally obligated to pay a share of the cost of mining operations." Since lessors who have no interest in the operating profits of a mine may nevertheless pay real estate taxes, exploration expenses, or other expenses, your committee's bill provides, instead, that those provisions shall be inapplicable to "income realized by the owner as a coadventurer, partner, or principal in the cutting of such timber or the mining of such coal."

It is also made clear that these provisions do not apply to a lessee, and that the term "coal" includes lignite.

Because treatment of coal royalties as capital gains will automatically exclude such income from income subject to excess-profits tax, your committee's bill provides conforming amendments to the excess profits tax law. Where the taxpayer computes his excess profits credit by the income method, these royalties are to be excluded from the taxpayer's base period income. Similarly, for the purposes of computing the invested capital credit and computing capital changes, the lessor's interest in the coal property from which the royalties are derived is to be treated as an inadmissible asset.

Section 325 applies to taxable years ending after December 31, 1950, but only with respect to amounts received or accrued after that date.

The revenue loss involved is estimated to be about \$10 million annually.

10. *Expenditures in the development of mines*

Under existing law and regulations all expenditures made with respect to a mine prior to the time it has reached the production stage must be capitalized, except that incidental income from the production of ore while the mine is being developed is offset by development expenditures, only the excess of such expenditures over such receipts being capitalized. Amounts so capitalized are deductible for income-tax purposes only through depletion allowances.

Included in the expenditures which must be so capitalized are the costs of shafts, tunnels, galleries, etc., which are necessary to make the ore or other mineral accessible. Such expenditures are required to be capitalized only until the mine reaches the production stage, which occurs when the major portion of the mineral production is obtained from workings other than those opened for the purpose of development, or when the principal activity of the mine becomes the

production of developed ore rather than the development of additional ores for mining.

After a mine reaches this production stage continued expenditures must be made to extend tunnels, galleries, etc., as the working face of the ore or other mineral recedes. Such expenditures are deductible currently, unless extraordinary in scope, in which case they are treated as prepaid expenses to be deducted ratably as the ore benefited by the expenditure is produced and sold.

It is believed that the expenditures for the development of a mine—those incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed—are essentially similar to those incurred after the production stage has been reached, and, like those, should be treated as expenses relating to the production of the ore or minerals.

This is particularly important where the depletion allowance is a percentage of the gross income from the property. This allowance is the same whether a large expenditure or a relatively small one is necessary to develop the mine in order to enable the ore or mineral to be extracted, with the result that mines with relatively large development costs are subjected to unfair discrimination. Moreover, where percentage depletion is used, the development costs are never specifically deductible for tax purposes, except in years when the deduction available under cost depletion exceeds that which may be taken under percentage depletion.

The requirement that development expenditures must be capitalized presents a serious obstacle to expansion in the mining industry. This is especially serious at the present time because of the shortage of many essential minerals and the desirability of major developments in the case of certain minerals such as iron which are necessary to the defense effort.

The House bill provides that expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit are to be deductible ratably over the period during which the ores or minerals benefited by such expenditures are sold. This provision applies even though the ore or minerals were produced in a year other than the year of the sale. However, this rule applies only when the expenditures are made after the existence of ores or minerals in commercially marketable quantities has been determined and the development stage has begun. It is not applied to oil or gas wells, where the problem at issue has been dealt with through the optional deduction of intangible drilling and development costs in the year they are incurred.

Expenditures made for the purchase of depreciable property are not to be counted as development expenditures for this purpose but the depreciation charges which appear as the result of the use of such property for development purposes may qualify for such treatment as development costs.

Expenditures made for development will continue to increase the adjusted basis of the mine for computing gain or loss, as under existing law; however, this basis will then be reduced as the deductions allowable under this provision of the House bill occur. Although thus included in the adjusted basis for the purpose of computing a gain or loss from a sale, in order to prevent duplication of tax benefits, such development expenditures are not to be taken into account in deter-

mining the adjusted basis of the property for the purpose of computing depletion based upon costs.

Your committee's bill retains the principle of the House bill. However, section 309 of your committee's bill provides that the taxpayer may elect either to deduct development expenditures, whether incurred before or after the production stage has been reached, in the year when they are incurred, or to treat development expenditures incurred before the production stage has been reached as deferred expenses, to be deducted ratably as the ore or mineral is sold. This second alternative is the same as under the House bill. Such an election may be made for each year, but must be for the total amount of net development expenditure made in that year with respect to the mine. As under the House bill, if the taxpayer elects to defer development expenditures the amount so deferred will be included in the basis of the mine for the purpose of determining a gain or loss on its sale, and the basis will be reduced as the deductions, allowable when ore or mineral is sold, are made.

Your committee's bill also provides that if the taxpayer elects to defer the deduction of development expenditures incurred during the development stage, the amount to be so deferred in any year will be the excess of the development expenditures in that year over the net receipts during that year from the ores or minerals produced.

This provision of your committee's bill is effective with respect to taxable years beginning after December 31, 1950.

It is estimated that in a full year's operation this provision will involve a revenue loss of about \$20 million annually.

11. Venture capital companies

Section 336 of this bill will permit certain so-called venture capital companies to qualify as regulated investment companies. Under Supplement Q of the code, regulated investment companies which distribute currently at least 90 percent of their income, and meet certain other tests set out in section 361 (b) of the code, are not taxed upon amounts distributed to shareholders. One of these tests is that the company must not invest more than 50 percent of its assets in companies in which it holds more than 10 percent of the value of the voting securities. This rule has the effect of denying special treatment to companies which undertake to control the enterprises in which the bulk of their funds are placed. It clearly excludes a holding company in the ordinary sense of the word.

It has been brought to the attention of this committee that the 10 percent stock-ownership limitation constitutes a serious impediment to the development of so-called venture capital companies. These are investment companies which are used principally to provide capital for other companies engaged in the development or exploitation of inventions, technological improvements, new processes and products which were not previously generally available. In such cases the investment company must provide most of the capital needed to finance the venture and will frequently hold more than 50 percent of its assets in stock representing more than 10 percent of the voting stock of the operating companies. As a result, it cannot qualify under Supplement Q if it invests more than 50 percent of its assets in such companies. Unless this rule is amended, it will not be possible for an investment company to devote itself principally to the development of such ventures and obtain the benefits of Supplement Q.

The venture capital company promises to serve as an instrument for directing an increasing portion of the current savings of the country into the small, innovating ventures which are so important for long-run economic progress. Therefore, section 336 of this bill amends section 361 of the code so as to permit venture capital companies to qualify as regulated investment companies. This is accomplished by waiving, under certain conditions, the 10 percent limitation as to certain types of holdings. To qualify for this exception the investment company must obtain a certification from the Securities and Exchange Commission which states that the investment company is a registered management investment company as defined in the Investment Company Act of 1940 and that its principal business is the furnishing of capital to companies principally engaged in the development or exploitation of inventions, technological improvements, new processes or products not previously generally available. This certification will be made under regulations to be issued by the Securities and Exchange Commission.

To forestall the possibility that this amendment will permit holding companies to obtain the benefits of Supplement Q, the bill also provides that the 10 percent rule shall not be waived in the case of an investment company which, at the close of the taxable year, has more than 25 percent of its funds invested in companies, the securities of which it has held for more than 10 years.

All the other limitations on regulated investment companies now imposed under Supplement Q are retained.

The House bill contains a provision which is substantially identical with section 336 of your committee's bill. Only minor, technical changes have been made in the House provision.

Section 336 is effective with respect to taxable years beginning after December 31, 1950. The revenue effect of this provision is negligible.

12. Additional withholding upon agreement by employer and employee

Frequently concern is expressed by taxpayers with income above the first surtax bracket because the entire amount of tax due is not withheld from their wages or salaries. They dislike the necessity of making a payment with their declaration of estimated tax in March, or the necessity of making quarterly payments. However, it is not feasible to establish a system of general application which will withhold the total tax due in all cases, because, as a result of such factors as variations in deductions and income not subject to withholding, the additional tax due differs widely from case to case.

In individual instances, however, where the taxpayer can estimate quite accurately the amount of the additional tax due and the employer finds the additional withholding is not burdensome, a voluntary system is feasible and would be a convenience to the taxpayer. For these reasons section 203 of your committee's bill, which is the same as section 223 of the House bill, amends section 1622 of the code to provide that additional withholding may be authorized by regulation where the employer and employee agree to it. No additional revenue is expected to be provided by this provision.

B. PROVISIONS ADDED BY YOUR COMMITTEE

1. Additional allowance for certain members of the Armed Forces

The Revenue Act of 1950 added a new section 22 (b) (13) to the code which excludes from taxable income the compensation of members of the Armed Forces of the United States received for active service in combat zones such as Korea. This exclusion covers all the pay of enlisted men and warrant officers and the first \$200 per month paid to commissioned officers. The present exclusion only applies to services performed after June 24, 1950, and prior to January 1, 1952.

Section 305 of your committee's bill makes two changes in the existing provision. First, the exemption is extended for 2 years beyond the present termination date to January 1, 1954. Second, the exemption is extended to include the compensation of military personnel received while hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone.

These amendments will result in a revenue loss of \$10 million annually until 1954.

The amendments made by your committee to section 22 (b) (13) are applicable to taxable years ending after June 24, 1950.

2. Sales of land with unharvested crops

Section 117 (j) of the code provides, in effect, that a net gain from sales of properties "used in the trade or business" of the taxpayer, including "real property" so used, if held more than 6 months is to be treated as a capital gain. In the case of a net loss, it is treated as an ordinary loss. Where unharvested crops are sold with the land, or unripe fruit is sold together with the land and the trees, a difficult question has arisen as to the proper application of the present law to the unharvested crops or the unripe fruit.

The Bureau of Internal Revenue has ruled that, whether or not such crops or fruit are regarded as a part of the real estate under local law, they constitute property held "primarily for sale to customers in the ordinary course of his (the taxpayer's) trade or business" and thus, under the provisions of section 117 (j), any gain on the sale of the unharvested crops or unripe fruit is to be separately determined and treated as ordinary income instead of as a capital gain. In several decisions the Tax Court (with some members dissenting) has taken a similar view, but two district courts have held that such fruits or crops constitute "property used in the trade or business" so that a gain from a sale of the land, trees, and fruit would be treated as a capital gain with the result that the entire gain from the sale of such property would constitute ordinary income.

Your committee believes that sales of land together with growing crops or fruit are not such transactions as occur in the ordinary course of business and should thus result in capital gains rather than in ordinary income. Section 323 of the bill so provides.

Your committee recognizes, however, that when the taxpayer keeps his accounts and makes his returns on the cash receipts and disbursements basis, the expenses of growing the unharvested crop or the unripe fruit will be deducted in full from ordinary income, while the entire proceeds from the sale of the crop, as such, will be viewed as a capital gain. Actually, of course, the true gain in such cases is the difference between that part of the selling price attributable to the

crop or fruit and the expenses attributable to its production. Therefore, your committee's bill provides that no deduction shall be allowed which is attributable to the production of such crops or fruit, but that the deductions so disallowed shall be included in the basis of the property for the purpose of computing the capital gain.

The provisions of this section are applicable to sales or other dispositions occurring in taxable years beginning after December 31, 1950.

The revenue loss under this provision is expected to be about \$3 million annually.

3. Elections to file joint or separate returns and to use the standard deduction

Under section 51 of the code, married taxpayers may file either separate returns or a single joint return. The election, once made, as to which type of return to file is binding with respect to the taxable year for which the return is filed.

Section 23 (aa) of the code permits an individual the use of an optional standard deduction in lieu of itemizing his deductions. The election to use either of these methods of handling deductions is likewise binding upon the taxpayer for the taxable year with respect to which the option is exercised.

As a proper election frequently requires informed tax knowledge not possessed by the average person, the binding elections referred to above may result in substantially excessive taxes. This result of making an improper election is particularly apt to occur during a period of high tax rates such as the present.

Your committee's bill contains two amendments directed at this problem. Section 312 of the bill provides that married individual income taxpayers who file separate returns may exercise the right to change their election and file joint returns at any time within the period of the statute of limitations. This provision is effective with respect to taxable years beginning after December 31, 1950. Section 308 of the bill also provides that individuals who have used the standard deduction when filing their return may substitute itemized deductions at any time within the period of the statute of limitations. Moreover, taxpayers who have itemized their deductions are also to have the option to amend their return within the same period in order to take advantage of the standard deduction. This provision is effective with respect to taxable years beginning after December 31, 1949.

It is anticipated that the revenue loss from these amendments will be negligible.

4. Pensions

Under section 165 of the code, payments made from an employees' retirement fund are taxable to the recipient as received. It has been reported to your committee that life insurance agents have been denied the benefits of this section because of a ruling that they are not technically "employees" for the purposes of the provision. As a result the entire lump-sum value of the pension in excess of any amount contributed to the fund by the employee is taxable as income of the agent in the year he retires when his right to his share of the company's contributions becomes nonforfeitable. Your committee believes this treatment to be inequitable, particularly inasmuch as Congress provided specifically that full-time life insurance agents are

to be employees for social security purposes. Therefore, section 343 of the bill amends section 3797 (a) of the code to extend the benefits of section 165 to life insurance agents who are employees for social security purposes.

This amendment is effective with respect to taxable years beginning after December 31, 1948.

The revenue loss from this amendment will be negligible.

A case has also been brought to the attention of your committee in which an association providing retirement benefits desires to invest a portion of its funds in common stocks, thus providing for a hedge against inflation. A question has arisen as to whether the variable payments which will be made from this fund will qualify for section 165 treatment. It is reported that in the past such treatment has been limited to those retirement plans wherein the annuity contracts provide for the payment of fixed amounts. Your committee understands that treatment as annuities of payments which vary in amount is to be provided administratively under present law, thus permitting the recipients of these annuities to be taxed on the amounts as received instead of being taxed on the lump-sum value of the annuity at the time payments begin. The revenue effect of this provision is negligible.

5. Stock distributions of profit-sharing plans.

Section 165 (b) of the code provides for the taxation of distributions to employees from exempt pension and profit-sharing funds. As a rule both the employee and the employer contribute to such funds. The amounts so contributed are then invested, usually in the stock of the employer company. Such amounts may or may not be credited to the accounts of individual employees at the time the purchases of stock are made. At the time that the total distributions payable with respect to any employee are paid to him within one taxable year on account of his separation from service, he is taxable at capital gain rates upon the entire value of the stock which was contributed by his employer. This is likewise true of any uninvested cash contributed to his account by the employer. The value of the withdrawal for tax purposes under present law is the sum of this uninvested cash and the market price of the stock at the time of withdrawal. It is frequently the case that the price the fund paid for the stock was substantially less than the current market price that is used in determining the taxable value of the employee's withdrawal. This results in the employee's being taxed on the amount of company contribution, the fund earnings, and any increase in the value of stock which was purchased for his account. Therefore, where companies select this method of providing for their employees' retirement rather than through the purchase of annuities, this accumulated value of the employer's contribution in the fund is bunched in one taxable year, thus subjecting it to tax in higher surtax brackets.

Your committee believes that the present tax on the stock appreciation in such cases substantially reduces the employees' profit-sharing accumulation and thus his retirement income. This is a discrimination against those employees who select this method of providing for their old age.

Therefore, section 334 of your committee's bill provides that in the case of such distributions consisting of stock in the employer cor-

poration the appreciation in the value of the stock contributed by the employer which has arisen since being deposited in the fund is not to be subject to capital-gain tax until the employee sells the stock, rather than at the time it is distributed to him as under present law. This amendment makes no change in the present tax treatment of that portion of the value of such stock which does not represent appreciation in value.

This amendment applies to distributions made after December 31, 1950.

The revenue loss from this amendment will be negligible.

6. Death benefits to employees

Section 22 (b) (1) of the code excludes from gross income amounts received under a life-insurance contract paid by reason of the death of the insured, whether in a single sum or otherwise. However, by its terms, this provision is limited to life-insurance payments, and the exclusion does not extend to death benefits paid by an employer by reason of the death of an employee. In order to correct this hardship, section 302 of your committee's bill excludes from gross income death benefits not in excess of \$5,000 paid by any one employer with respect to any single employee's beneficiary or beneficiaries in accordance with a preexisting contract. The limitation of the exclusion to payments not in excess of \$5,000 will prevent abuses under this new provision.

This provision is effective with respect to taxable years beginning after December 31, 1950.

The revenue loss from this amendment will be negligible.

7. Termination payments to employees

Some employment contracts provide for payments to the employee after the employment period, based on a share of future profits or a percentage of future gross receipts. Such payments when received are taxed under present law as ordinary income, inasmuch as they are in the nature of payments of additional compensation. However, if the employee chooses to receive a lump-sum payment in lieu of the contract rights upon termination of his employment, the entire lump sum is included in one year's income. The result may be to place the employee in an unusually high surtax bracket. Your committee believes this present treatment of such lump-sum settlements to be unduly harsh in view of the fact that the employee may not wish to leave his retirement income dependent upon the operation of the business subsequent to the severance of his connection with it.

As a result, section 328 of the bill provides, with certain restrictions, for capital-gain treatment of amounts received by an employee, upon termination of his employment, in exchange for his release of all of his rights to receive a percentage of future profits or receipts. This provision is limited to cases where the taxpayer has been employed for more than 20 years and has held such rights to future profits or receipts for at least 12 years.

This provision is effective with respect to taxable years beginning after December 31, 1950.

The revenue loss from this amendment will be negligible.

8. Restricted stock options

The Revenue Act of 1950 added a new section 130A to the code, which provides that the granting to employees of certain types of stock

options will not give rise to taxable income to the recipient. To be excluded under this provision the option must fall within a defined category of "restricted stock options."

Section 130A requires that to qualify as a "restricted stock option" the option price at the time of the granting must be 85 percent or more of the fair market value of the stock. Ordinarily, when an option is used as an incentive device, the option price approximates the fair market value of the stock at the time the option is granted. The 15-percent leeway is allowed because many stocks are not listed on exchanges and therefore, the fair market value is difficult to determine. It has come to the committee's attention that the operation of the 85-percent limitation has resulted in a hardship in one respect. In many cases, the granting of stock options is subject to ratification by the corporation's stockholders. Thus, at the time of the action by a corporation's board of directors the option may be fully qualified as to the 85-percent limitation, but because of the delays typically incident to action by a corporation's shareholders, the fair market price may have so changed by the time of their ratification that the option no longer qualifies under the statute.

In order to correct this harsh operation of the present provision, section 330 of your committee's bill provides that the date of the granting of a restricted stock option which is subject to stockholder ratification shall be determined as if the option had not been subject to such approval.

This amendment will be effective as if it had been enacted as part of the stock option provision of the Revenue Act of 1950.

9. Medical expenses

Section 23 (x) of the code permits the deduction of a taxpayer's medical expenses only to the extent that such expenses exceed 5 percent of the taxpayer's adjusted gross income.

Section 307 of your committee's bill removes this 5-percent limitation for any taxpayer, if either the taxpayer or his spouse is aged 65 or over, but only with respect to the medical expenses of such taxpayer and his spouse. Persons in that age bracket have generally reached a period of lowered earning capacity. These same individuals typically are confronted with increased medical expenses. Disallowance of the deduction of many of these expenses under present law merely serves to accentuate this existing hardship.

This bill does not affect the maximum limitations of present law on the amount of the deduction.

This provision of your committee's bill is effective with respect to taxable years beginning after December 31, 1950.

It is estimated that the provision will involve a loss of revenue of about \$15 million in a full year of operation.

10. Redemption of stock to pay death taxes

The Revenue Act of 1950 amended section 115 (g) of the code to provide that the redemption of stock in a decedent's estate in an amount not in excess of the estate, inheritance and succession taxes (including interest) on the estate is, in certain cases, not to be treated as a taxable dividend. Among other requirements, this provision is limited at present to cases where the value of the stock in the corporation comprises more than 50 percent of the value of the net estate of the decedent.

Your committee believes that the latter limitation imposes a hardship on those estates where the stock in a corporation forms a substantial part of the value of the net estate but falls short of meeting the restrictive 50 percent requirement. Therefore, section 320 of the bill extends the benefits of section 115 (g) to cases where the stock comprises more than 25 percent of the value of the decedent's net estate.

This amendment will be applicable only to amounts distributed on or after the date of enactment of the bill.

The revenue loss resulting from this section will be negligible.

11. Basis of joint and survivor annuities included in the gross estate.

Section 113 (a) (5) of the code provides that property acquired by bequest, devise, or inheritance shall have a basis for determining gain or loss equal to its fair market value at the date of the decedent's death or, if the decedent's executor elects the optional valuation date, at a date 1 year after the decedent's death. However, all property which is included in the decedent's gross estate for estate-tax purposes does not take a new basis upon the decedent's death.

A joint and survivor annuity is includible in the decedent's gross estate but is treated as a gift for basis purposes so that, for purposes of gain, it has the same basis as in the hands of the donor. Section 303 of your committee's bill amends sections 22 (b) (2) and 113 (a) (5) of the code to provide that where a joint and survivor annuity is included in the decedent's gross estate, its basis shall be the value of the property included in the estate.

This amendment is to apply only where the decedent dies after December 31, 1950.

No appreciable loss of revenue is anticipated from the amendment.

12. Abatement of income taxes for certain members of the Armed Forces dying in combat zones or as a result of injuries received in such zones

Individuals dying while in active service during World War II as members of the military or naval forces of the United States or other United Nations were forgiven their income tax with respect to the year of the death and the prior year. They also were relieved of unpaid income taxes at the time of their death.

Section 333 of your committee's bill provides similar treatment for members of the Armed Forces of the United States dying while serving in combat zones or while hospitalized as a result of wounds, disease, or injuries incurred while serving in combat zones.

Your committee's bill provides for the forgiving of income tax in the year of death of such individuals and in prior taxable years ending after the commencement of hostilities in Korea. Also, such individuals are relieved of any income taxes for any year unpaid at the date of their death. The provision is effective with respect to individuals dying after the commencement of hostilities in Korea and prior to January 1, 1954.

13. Individuals earning income abroad

Section 116 (a) of the code exempts from income tax citizens of the United States who are bona fide residents of a foreign country with respect to income earned outside the United States, and disallows deductions chargeable against this income. This provision is intended

both to encourage citizens to go abroad and to place them in an equal position with citizens of other countries going abroad who are not taxed by their own countries.

However, the present law has two defects which section 321 of your committee's bill corrects. First, the exclusion is allowed only with respect to an "entire taxable year" with respect to which the individual is a bona fide resident of the foreign country. Thus, exemption is denied an individual in his first year abroad unless he becomes a bona fide resident of the foreign country as of January 1. Section 321 of your committee's bill corrects this defect of present law by granting the exclusion with respect to "an uninterrupted period which includes an entire taxable year" with respect to which an individual was a bona fide resident of a foreign country.

In addition, the term "bona fide" residence abroad has been construed quite strictly with the result that many persons who have gone abroad to work even for a relatively long period of time have been unable to meet the test of a "bona fide resident" of a foreign country. Sometimes this has occurred because the nature of the individual's work is such as to make it difficult to establish a "residence" in the more widely accepted use of the term. On other occasions it has resulted from the fact that individuals have gone abroad only for a stated period of time. Examples of this are managers, technicians, and skilled workmen who are induced to go abroad for periods of 18 to 36 months to complete specific projects. Your committee believes, in accord with the point 4 program, that it is particularly desirable to encourage men with technical knowledge to go abroad. As a result your committee has added a paragraph to section 116 (a) of the code providing that income earned abroad by a citizen of the United States who is present in a foreign country or countries for 17 out of 18 consecutive months is to be excluded from income, and that deductions chargeable to such income will be disallowed in computing his Federal income tax.

These two changes made by your committee's bill are effective with respect to taxable years beginning after December 31, 1950.

Your committee's bill also amends section 1621 (a) (8) (A) of the code to provide that there is to be no withholding by the United States where it is reasonable to believe that the income is paid to a person who will qualify for the exclusion on the basis of presence in a foreign country for 17 out of 18 consecutive months. In addition, it provides that there is to be no withholding of income taxes for the United States upon an amount earned for services performed in foreign country if withholding on that amount is required for a foreign country. These changes in your committee's bill are effective as of January 1, 1952, with respect to wages paid on or after that date.

The revenue effect of these provisions is negligible.

14. War losses

Section 127 of the code, in general, authorizes a war loss deduction for property in enemy hands when the United States entered World War II in 1941, for property which later came under enemy control and for property destroyed or seized in the course of military or naval operations. This deduction is limited to the taxpayer's depreciated cost or other basis of the property. Section 127 also provides that if any of the property was recovered, the fair market value of the

recovered property, not the amount deducted, is to be taxed as ordinary income to the extent that the deduction resulted in a reduction of tax.

Where only one property was involved, there has been no difficulty with this rule, since in those cases where the fair market value of the recovered property exceeded the amount of the deduction, the value of the recovered property was includible in income only to the extent that the deduction resulted in a reduction in tax. The full fair market value was not included in income in such cases because it was believed appropriate to treat the taxpayer as nearly as possible as if he had held the property throughout the entire period and received no deduction for the temporary loss. In such a case appreciation in the value of the property would not, of course, be subject to tax. However, where the war loss embraces more than one property, the present rule does not always achieve this result. For example, where war loss deductions have been taken for two or more properties, and only one of these properties is recovered, if the recovered property has appreciated in value, the deduction previously taken not only with respect to this property but also with respect to the property not recovered is taken into consideration in determining how much of the fair market value of the property recovered represents a previous reduction in tax. In such a case the effect of the present provision is not to treat the property as if it has been held for the entire period since part or all of the appreciation in value of the property is subject to tax in the year of recovery merely because a deduction had also been taken for another property which has not been recovered.

To correct this situation section 340 of your committee's bill amends section 127 of the code to provide that, at the election of the taxpayer, in the case of war loss recoveries the tax for the year in which the deduction was taken is to be recomputed by reducing the deduction by the amount of the recovered property, taken at its depreciated cost on the date of the loss or its fair market value on the date of the recovery, whichever is lower, and by adding the increase, if any, in the tax so resulting to the tax for the year of the recovery.

The attention of your committee has also been brought to cases where war losses have been realized but no deduction was claimed. In such cases, if other war losses were deducted with a tax benefit, section 127 of the code operates to require the fair market value of the property on the date of the recovery to be included in income in the year of the recovery to the extent not in excess of the beneficial deductions for other war losses. Under section 340 of your committee's bill there would be no tax in the year of the recovery with respect to property for which no deduction was claimed in the year of the loss.

No interest is to be paid or assessed on refunds or deficiencies arising from this provision.

These amendments will have no permanent revenue effect.

15. Foreign tax credit for taxes paid by a foreign subsidiary

Existing law permits a domestic corporation, owning the majority of the voting stock of a foreign corporation, to claim a foreign tax credit for income taxes paid by the foreign corporation to a foreign government with respect to the profits of the foreign corporation which are paid as dividends to the domestic corporation. Your com-

mittee believes that the principle established by present law is correct but does not believe that the allowance of the foreign tax credit should be limited to those cases where the domestic corporation owns a majority of the voting stock of the foreign corporation. Irrespective of the proportion of the foreign corporation owned by the domestic corporation, the dividends received by the domestic corporation are equally likely to be affected by the taxes paid to a foreign government. Moreover, several foreign countries prohibit the ownership of as much as 50 percent of one of their domestic corporations by a foreign corporation. Thus, it is impossible for American corporations to operate a foreign subsidiary in these countries and receive the foreign tax credit with respect to dividends paid to them by the foreign corporation which they partially own. Also, in some cases a foreign corporation is owned jointly by two or more domestic corporations, and in such cases either none receive the foreign tax credit or one receives it while the others do not. For these reasons section 331 of your committee's bill amends section 131 (f) (1) of the code to provide that the foreign tax credit is to be allowed if the American corporation owns 10 percent or more of the voting stock of the foreign corporation. The 10 percent limitation is imposed for administrative reasons.

This provision is effective with respect to dividends received during taxable years beginning after December 31, 1950.

Under present law if a foreign subsidiary of an American corporation owns all of the voting stock of another foreign corporation, the dividends received by the American parent with respect to the earnings of the second subsidiary are eligible for a foreign tax credit. However, your committee sees no reason why it is necessary for the first foreign subsidiary of the American corporation to own all of the voting stock of the second foreign subsidiary in order for the American parent corporation to receive the foreign tax credit with respect to dividends paid from the profits of the second foreign subsidiary. On administrative grounds there is a basis for requiring majority ownership, but not complete ownership, of the second foreign subsidiary by the first foreign subsidiary. Therefore, section 331 of your committee's bill extends the foreign tax credit to apply in the case of dividends received by American corporations in such cases of majority ownership.

These amendments are expected to result in a revenue loss of \$30 million in a full year's operation.

This provision is effective with respect to dividends received by a foreign corporation during taxable years beginning after December 31, 1950.

16. Postponement of due date for returns of China Trade Act Corporations

Under present law China Trade Act Corporations are allowed a credit against their income for the net income derived from sources within China with respect to the portion of the stock of the corporation held by Chinese or American shareholders. Also, the corporation must distribute an amount at least equal to the amount of the income tax which ordinarily would be imposed in such cases in order to receive the full credit. As a result of hostilities and unsettled conditions generally in the Far East, it is impossible in many cases for corporations doing business in China to make a distribution of any earnings derived from China or even to know the size of such earnings. For that reason section 613 of your committee's bill amends present law to

provide that the Secretary of the Treasury may postpone the due date up to the end of 1953 for the paying of any income tax and the filing of the return with respect to years beginning and ending in the period January 1, 1949, to September 30, 1953, if he deems such deferment reasonable under the circumstances. Since the requirement, that in order to receive the full credit the distribution of earnings derived from China must at least equal the income tax which otherwise would have been paid, need not be met prior to the time the taxes are due and payable, the postponement of the due date also has the effect of permitting the taxpayer to postpone the distribution of earnings.

This provision will have no permanent effect on the revenue.

17. Application of the intercorporate dividends-received credit in the case of resident foreign corporations

Under present law foreign corporations engaged in trade or business within the United States are subject to the regular corporate income taxes with respect to that portion of their income which is derived from sources within the United States. However, where such corporations pay dividends to a United States domestic corporation, no dividends-received credit is allowed the latter, although such credit would be allowed if the domestic corporation were receiving dividends from another domestic corporation. Thus, two full corporate taxes are paid with respect to dividend income received from foreign corporations engaged in trade or business within the United States (to the extent that the dividends are paid out of income derived from sources within the United States), while as a result of the intercorporate dividends-received credit, dividends paid by one domestic corporation to another are subject only to a little more than one full corporate income tax.

To remove this discrimination, section 311 of your committee's bill amends section 26 (b) of the code, relating to the dividends-received credit, to provide that under certain conditions dividends received from foreign corporations engaged in trade or business within the United States are to be eligible for the 85-percent intercorporate dividends-received credit. However, the credit is to be extended only with respect to so much of the income as was earned in the United States. Moreover, the credit is to be made available only with respect to income earned in the United States during an uninterrupted period in which the corporation was engaged in a trade or business within the United States. Also, for administrative reasons the credit is to be made available only where 50 percent or more of the gross income of the foreign corporation was derived from sources within the United States.

This provision of your committee's bill is effective with respect to taxable years beginning after December 31, 1950.

It is estimated that this provision will result in an annual loss of revenue of \$1 million.

18. Net operating loss deductions

Section 329 of the bill permits net operating losses of 1948 and 1949 to be carried forward 4 years instead of 2. This provision is necessary in order to reduce the existing disparities in the treatment of different tax years.

The Revenue Act of 1950 provided that the net operating loss for a year may be carried back to offset income of the preceding year and

may be carried forward to offset income of the 5 succeeding years. This provision was made effective for losses in 1950 and later years. Losses in years prior to 1950 may be carried back 2 years and carried forward 2 years. The effect of the change in the 1950 act was to permit losses in 1950 and subsequent years to be applied to offset possible income in six other years, whereas losses in 1949 and earlier years could be applied to offset possible income in only four other years.

So far as a taxpayer with income in 1950, 1951, or 1952 is concerned, the 1950 act had the effect of reducing the number of possible loss years whose net operating losses could be applied to offset the 1950, 1951, or 1952 income. This is because a loss in a year subsequent to 1949 may be carried back only 1 year instead of 2 years. For example, a taxpayer with income in 1947 had four potential loss years which might be applied against the 1947 income—1945, 1946, 1948, and 1949—whereas a taxpayer with income in 1950 has only three potential loss years which might be applied against the 1950 income—1948, 1949, and 1951. Also, a taxpayer with income in 1953 or 1954 would not have as many potential loss years which might be applied against his income in those years as a taxpayer with income in 1955 (when the provision in the 1950 act becomes fully effective), since 1953 income may be offset only by 1950, 1951, 1952, and 1954 losses (4 years) and 1954 income may be offset only by 1950, 1951, 1952, 1953, and 1955 losses (5 years), compared with an offset against six potential loss years in the case of income in 1955 and subsequent years.

By permitting 1948 and 1949 losses to be carried forward 4 years, the bill increases to four the number of loss years which may be applied to 1951 income and increases to five the number of loss years which may be applied to the income of 1952 and 1953. No comparable provision appears in the House bill.

Under present law, new corporations formed during the period 1946 to 1949 are at a competitive disadvantage as a result of the existing net operating loss provisions. For example, a corporation formed in 1947 with losses in that year obviously is unable to carry back its losses and can only carry them forward 2 years. A competitor, formed in 1950, can carry forward its losses 5 years to 1955. In order to correct this inequity, the bill provides that new corporations formed in a taxable year beginning after December 31, 1945, which sustain a net operating loss for any taxable year beginning after that date and before January 1, 1950, may carry forward such loss (to the extent not absorbed by a carry-back) for four taxable years, instead of two taxable years as under present law.

These provisions are applicable in computing the net operating loss deduction in taxable years beginning after December 31, 1948.

There will be no permanent revenue loss from these provisions.

19. *Corporate reorganizations (spin-offs)*

Section 317 of your committee's bill adds a new section 112 (b) (11) of the code to provide for the nonrecognition of gain from the receipt of stock in corporate exchanges carrying out transactions known as spin-offs. A spin-off occurs when a part of the assets of a corporation is transferred to a new corporation and the stock in the latter is distributed to the shareholders of the original corporation without a surrender by the shareholders of stock in the distributing corporations. It is intended that section 317 shall be applicable even

though the portion of the business which is spun off is already organized as a separate corporation, with the result that it is the stock of that corporation, rather than the underlying assets, which is transferred to the new corporation whose stock is distributed. For example, if among the assets of corporation A is the stock of a subsidiary corporation B, whether or not wholly or even majority owned, and business reasons exist, unrelated to any desire to make a distribution of earnings and profits to its shareholders, for the separation of the assets consisting of such stock, such separation may be effected without recognition of gain to corporation A or its stockholders by transferring the stock of B to a newly organized corporation C in exchange for its stock, followed by the distribution of C's stock to the stockholders of A without the surrender of their stock.

This section has been included in the bill because your committee believes that it is economically unsound to impede spin-offs which break-up businesses into a greater number of enterprises, when undertaken for legitimate business purposes. A similar provision was contained in the revenue revision bill of 1948 which passed the House but was not acted upon by the Senate, and a similar provision was included in the Senate version of the bill which became the Revenue Act of 1950.

Section 317 has been drafted so as to limit its benefits to reorganizations in which all of the new corporations as well as the parent are intended to carry on a business after the reorganization and where only stock (other than preferred) is distributed by the corporation or corporations. Nonrecognition of gain has been denied also in cases where the reorganization was principally a device for the distribution of the earnings and profits of the corporations which are parties to the reorganization.

Section 317 of the bill also adds a new section 113 (a) (23) to the code providing that, in the case of stock distributed in a spin-off, the basis of the new stock, and the old stock, respectively, in the shareholder's hands, is to be determined by allocating between the old stock and the new stock the adjusted basis of the old stock.

These provisions of your committee's bill are to be effective with respect to taxable years ending after the date of the enactment of this bill, but are to apply only to distributions of stock made after that date.

The revenue loss resulting from this provision is expected to be small.

20. Back mail pay of railroads

After an application for increased mail pay made by the railroads in February 1947, the Interstate Commerce Commission in December 1947, ordered an interim increase of 25 percent in mail-pay rates effective after February 19, 1947, pending further investigation. Amounts represented by this increase were reported for tax purposes by the railroads in the years in which the services were rendered. On December 4, 1950, the ICC awarded the railroads \$312 million in back mail pay for the period from February 19, 1947, through December 31, 1950. Of this amount, about \$160 represented the 25-percent increase previously granted on a temporary basis with respect to the services rendered in the period 1947-50, and about \$158 million represented an additional increase with respect to those same services.